

**Adopt Regulation 2842 to read:**

Regulation 2842 - Approved Borrower Disclosure Statement For Nontraditional Mortgage Products

(a) Notwithstanding Section 2840 of these regulations, the Commissioner shall publish and make available to interested persons as an official form of the Department of Real Estate (RE Form 885), with approved format and content for the disclosure statement referred to in subdivision (a) of Section 10240 of the Code and Section 10241 of the Code.

(b) The publication of the form pursuant to subdivision (a) hereof is for the purpose of aiding real estate licensees in providing the disclosure of material information to prospective home loan borrowers whose loans involve a "nontraditional mortgage product" as that term is defined in subsection (c) below, in a uniform and effective manner.

(c) For the purpose of this regulation, a "nontraditional mortgage product" is a loan that allows borrowers to defer repayment of principal or interest. Such products include, but are not limited to, interest only loans where a borrower pays no loan principal for a period of time and payment option loans where one or more of the payment options may result in negative amortization.

A "nontraditional mortgage product" does not include reverse mortgages or home equity lines of credit (other than simultaneous second lien loans).

(d) A real estate broker must obtain the prior written approval of the Commissioner if he/she wishes to use a form different than that referred to in subsection (a) above with a nontraditional mortgage product. Forms that do not adequately provide the information required by Sections 10240 and/or 10241 of the Code, as appropriate, and in a format that is easily used by the Department, will not be approved.

NOTE: Authority cited: Section 10080, Business and Professions Code. Reference: Sections 10236.4, 10240, 10240.2 and 10241, Business and Professions Code.

**Amend Regulation 2848 to add (17) and (18):**

(17) A representation of an installment in repayment of an adjustable rate, interest only or payment-option loan without an equally prominent disclosure of the following information about the loan:

- (A) Principal amount
- (B) Term of loan
- (C) Initial interest rate
- (D) Number of months the initial interest rate will be in effect
- (E) Fully-indexed interest rate
- (F) Maximum interest rate
- (G) If different, an explanation of the difference between the payment rate, initial interest rate and fully-indexed rate.
- (H) Annual percentage rate
- (I) How often the interest rate and payments can change
- (J) Maximum periodic change in the interest rate and payments (periodic caps)
- (K) Number of months and percentage of original loan amount after which minimum payments will not be accepted and the loan re-amortizes
- (L) The monthly payment based on the maximum interest rate, and the loan balance after all negative amortization is included, assuming minimum payments are made
- (M) If the loan contains a prepayment penalty, a statement to that effect
- (N) If the loan contains a balloon payment, a statement to that effect

(18) A statement that the licensee can arrange "low doc/no doc", "no income/no asset", "stated income", "stated asset", "no ratio" or similar loan products without a statement that these products may have a higher interest rate, more points or more fees than other products requiring documentation.